

STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Capital Markets, Insurance, and Government Sponsored
Enterprises
“The Long and Short of Hedge Funds: Effects of Strategies for Managing Market
Risk”
May 22, 2003

GOOD MORNING, MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, AND WITNESSES.

I CONGRATULATE THE SEC’S RECENT ANNOUNCEMENT THAT A REVIEW OF HEDGE FUNDS AND SHORT SELLERS WAS UNDERWAY.

THERE IS A NEED FOR GREATER TRANSPARENCY THROUGH DISCLOSURE TO INVESTORS, MARKET PARTICIPANTS AND CREDITORS TO MORE ACCURATELY ASSESS THE RISK OF THE ACTIVITIES OF A HEDGE FUND. IN LIGHT OF THE IRREGULARITIES OF THE PAST FEW YEARS, WE KNOW THAT IT IS NECESSARY TO HAVE SOME DISCLOSURE AS THE MARKET DOES NOT ADEQUATELY REGULATE ITSELF.

PRACTICES OF SOME OF THE SHORT SELLERS ARE TACTICS ONE WOULD EXPECT TO FIND IN SOME LAWLESS, UNREGULATED, PLACE FAR REMOVED FROM THE UNITED STATES OF AMERICA. SOME SHORT SELLERS USE PRACTICES OF FALSE ACCUSATIONS OF CRIME ASSOCIATIONS, QUESTIONABLE ACCOUNTING PRACTICES, THREATS OF BANKRUPTCIES ALL FOR THE PURPOSE OF DEPRESSING PRICES. WE HAVE TO HAVE BETTER CONTROL OF THE SITUATION THAN THIS. THIS IS ALLOWING MARKET MANIPULATION.

THIS SPREAD OF FALSE INFORMATION IS MADE EASY BY THE USE OF THE INTERNET. SELLERS AND OTHER INTERESTED PARTIES CAN INSTANTLY SPREAD DAMAGING INFORMATION AND CAUSE DRASTIC REDUCTIONS IN PRICES OF SECURITIES IF NOT MONITORED.

THE TREMENDOUS GROWTH OF THE “HEDGE FUNDS” IN THE LAST FEW YEARS HAS EXCEEDED ANYONE’S EXPECTATION OR ANTICIPATION. THE MANNER OF OPERATION OR TRADING STRATEGIES OF THESE FUNDS HAS CHANGED ALONG WITH THE INCREASE IN THEIR SIZES. THE NAME HAS ALSO BECOME A UNIVERSAL NAME FOR THE MANY UNREGISTERED, PRIVATELY-OFFERED, MANAGED POOLS OF CAPITAL. THE RULES, OR LACK OF REGULATION, GOVERNING HEDGE FUNDS ARE SORELY OUTDATED OR AT THE LEAST, ARE IN TREMENDOUS NEED OF REVIEW.

MR. CHAIRMAN I ASK UNANIMOUS CONSENT TO SUBMIT MY STATEMENT
TO THE RECORD.